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SUBJECT: VIETNAM'S PLANS FOR BAUXITE EXPLOITATION

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¶11. (SBU) Summary: The Government of Vietnam (GVN) has spent several years developing plans to exploit Vietnam's massive bauxite reserves, estimated as the world's fourth or fifth largest. Despite environmental and national security concerns, and popular anxiety over Chinese participation, the highest levels of the GVN and the Communist Party have remained committed to an ambitious USD 15 billion initiative to mine bauxite, process aluminum, and transport the finished product 300 kilometers to a new port. While a Chinese company has begun construction on two alumina processing facilities in the Central Highlands, the GVN, though the State-owned Vietnam National Coal-Mineral Industries Group (Vinacomin), hopes to join with other international partners, such as Alcoa, to fully develop its aluminum potential. Unsteady markets for aluminum and the global financial crisis have not dissuaded the GVN from its goals, though it has acknowledged possible delays.

Comment:

¶12. (SBU) To our modest surprise, GVN officials provided much-greater detail about their plans for the bauxite sector than we had expected or that we have received in similar meetings relating to other natural resource exploitation or environmental issues. Most likely, this reflects GVN worry that growing public concern over environmental impacts and Chinese involvement in the project (septel) might dissuade Alcoa from continued participation. With BHP Billiton's already-announced postponement, Alcoa's possible postponement or departure would leave the Chinese as the project's sole foreign participant and likely market. This would further feed the public perception that the GVN was ceding economic (and possibly territorial) control over the project to China and its unpopular and environmentally unfriendly technologies. End comment

Bauxite Reserves

¶13. (SBU) Officials at the Ministry of Industry and Trade (MOIT) estimate Vietnam's bauxite reserves at about 5.4 billion tons, equal to about 2.4 billion tons of refined bauxite, and the fourth or fifth largest reserves in the world. The highest quality (up to 40 percent aluminum oxide) and largest-sized bauxite reserves are concentrated in the Central Highlands provinces of Dak Nong and Lam Dong and continue across the border into Cambodia (Note: Laos also has non-contiguous bauxite reserves across the border from the central province of Quang Nam). Though the Central Highlands are rich with coffee, tea and rubber production, GVN officials claim that most bauxite is located in bare, unforested areas, typically from four to twelve meters below the surface on the crest of hills.

Many Years of Study

¶4. (SBU) In the early 1980s, the Soviet Union and Hungary explored the possibility of bauxite mining but concluded that the environmental damage would be too great and instead urged an emphasis on cash crops, such as pepper, rubber and coffee. Subsequent Chinese plans to develop the bauxite mining sector did not receive GVN approval, most likely due to Vietnam's concerns that China, not Vietnam, would receive the added value from aluminum processing. However, as Vietnam continued to develop, the GVN, possibly prompted by its Chinese counterpart, revisited the possibilities of bauxite and by the early part of this decade was looking to create a large-scale mining and refining project.

High-Level GVN and Communist Party Commitment

¶5. (SBU) The GVN and the Communist Party repeatedly have identified bauxite/alumina development as important for economic development in the Central Highlands. The 10th Communist Party Congress in 2006 highlighted bauxite as an area for state investment, and in 2005 MOIT initiated plans to develop the sector through 2015. Most recently, in November 2008, Prime Minister Nguyen Tan Dung issued Decision 167/2007/QD-TTg approving the exploration, exploitation, processing and use of bauxite through 2015. Bauxite development has frequently been raised in high-level government-to-government and party-to-party talks with China, including the joint statement made during the November 2006 visit to Vietnam by Chinese President Hu Jintao, which noted the countries' desire to "immediately discuss and carry out large projects such as the Bauxite one in Dac Nong..." and the joint statement issued during Vietnamese Communist Party Secretary Nong Duc Manh's June 2008 visit to China, which noted that the two sides would "enhance cooperation in projects such as bauxite in Dac Nong." Outside groups monitoring the project note that this is a top-down effort with relevant decisions made by the Prime Minister, Ministry of Industry and Trade and Vinacomin.

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Ambitious Bauxite Sector Plans

¶6. (SBU) The GVN has initiated construction of two moderate sized projects in Dak Nong and Lam Dong provinces as the first steps in a hoped-for USD 15.6 billion initiative that will include several bauxite mines and aluminum refineries, linked by a 300-kilometer transportation link from the Central Highlands to a new deepwater seaport built specifically to handle bauxite at Khe Ga cape in coastal Binh Thuan province, about 200 kilometers north of Ho Chi Minh City. (Comment: These roads and ports are part of a broader Central Coast development program that has some port people wondering why Vietnam needs half a dozen ports on the Central Coast when barely one has enough cargo to be considered functional now. End comment.) According to Nguyen Khac Tho, Deputy Director of Heavy Industry at MOIT, the GVN's bauxite development plan assigned Vinacoin the lead in bauxite, alumina, and aluminum planning and focuses on capacity, financing, and technology. Under the plan, production would reach 13-15 million tons of alumina and 0.4-0.8 million tons of aluminum annually by 2025. However, MOIT, MONRE and Vinacomin contacts noted that aluminum production hinges on the ability to obtain enough power for energy-demanding aluminum refining, which will require heavy investment in new power projects.

China's Chinalco to Build First Two Facilities

¶7. (SBU) According to MOIT's Tho, China's Chinalco won a bid to construct the Lam Dong and Dak Nong bauxite/alumina facilities as part of an Engineering, Procurement and Construction (EPC) contract. Each have a capacity of 600,000 tons of alumina per year, though initial capacity will be set at 300,000 tons at each facility annually. Vinacomin will be responsible for facility operations and will perform the exploitation and bauxite separation. According to Lien, Chinalco will provide 4,000 Chinese workers (2,000 per project) at peak periods; higher numbers reported in Vietnamese blogs were exaggerated. Chinalco would provide training and technology transfer to Vinacomin, though approximately 100 Chinese

professionals will continue to work in the alumina production facilities after construction.

Potential Joint Ventures with U.S., Chinese, and Australian/UK Companies

¶18. (SBU) Beyond the initial two projects, Vinacomin has ambitious plans for aluminum production joint ventures following the completion of transportation links to Binh Thuan. While the global economic downturn has caused GVN to re-evaluate projects and push targets out from 2015 to 2020, it does not plan to down-size its projections. According to Tho, Vinacomin is looking at three primary facilities in which Vinacomin will hold 60 percent shares and foreign partners up to 40 percent (alternately, additional local partners, including the private sector, may take up to 9 percent, leaving Vinacomin with a 51 percent stake). Lien from Vinacomin added that the GVN was considering allowing foreign partners have 100 percent control of any future aluminum processing. China's Chalco will develop alumina production of 1.9 tons from Quang Son in Dak Nong; Alcoa will develop alumina production of 1.5 to 2 million tons (eventually up to 4 million tons) at Gia Nghia in Dak Nong; and BHP Billiton (Australian/UK) to develop alumina production of 1.5 to 2 million tons (eventually up to 4 million tons) in Dak Nong.

¶19. (SBU) Vinacomin looked most positively on the Alcoa project, as MOIT believed that Alcoa had agreed to participate in transportation infrastructure construction -- a prerequisite to a final agreement. In June 2008, during Prime Minister Nguyen Tan Dung's visit to Washington, Alcoa and Vinacomin signed a Cooperation Agreement to study the feasibility of developing a bauxite mine and alumina refinery. By contrast, though Vinacomin and BHP Billiton had an MOU and the PM visited London to review, due to economic downturn, BHP Billiton had postponed its joint venture. However, international aluminum experts cited poor world economic conditions, plunging global commodity prices and the ongoing backlash in Vietnam against bauxite mining as reasons why Alcoa could face a long delay in its plans for Gia Nghia.

Transportation Infrastructure

¶10. (SBU) The GVN will choose from a new railway, a rebuilt and expanded road system, or a pipeline to transport bauxite-related products to the coast for shipment to export markets. MOIT has initiated a pre-feasibility study for the rail project from Central Highlands to coastal Binh Thuan province, which would also provide passenger and other cargo service. The proposed railway will be constructed in two phases, each costing USD 1.5 billion, which will

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be funded from the GVN budget and contributions from partners (Note: According to Liem, Alcoa balked at this cost estimate and the GVN has asked an Australian consulting firm to recalculate. Alcoa's Walkmeyer made similar comments in his meeting with the Ambassador and recommended building an above-ground pipeline, converting the raw bauxite into "slurry," and moving it via pipeline from the central highlands to the coast for refining and eventual shipping). The seaport will be able to initially handle 3 million tons of alumina per year, with future expansion to handle larger volumes. Vinacomin's Lien stated that once Vinacomin locates financing, the first phase of the seaport project will cost USD 250 million. Expansion plans may cost up to USD 1 billion and the GVN is looking to cooperate with foreign partners.

Financing and Markets

¶11. (SBU) Financing for the initial two projects, budgeted at USD 1.5 billion, is coming from the Vinacomin budget and commercial loans, while larger, future plans will depend upon commercial loans and contributions from partners. GVN contacts did not discuss turning to multilateral development banks or donors, such as JICA, for assistance, and the World Bank and Asian Development Bank confirmed that they had not been approached for loans and that they did not contemplate entering this sector. According to Lien,

Vinacomin initially will focus on alumina production, as prohibitive energy costs make aluminum exports unlikely for several years. According to Tho at MOIT, initial alumina production will flow to China, though Vietnam would look at exports to other countries, such as Australia or the United States, depending on transportation costs. However, according to Lien, Vinacomin recently signed a contract with Yunnan Metallurgy in China under which Yunnan Metallurgy has agreed to purchase all alumina from initial projects in Dak Nong and Lam Dong for 30 years. Larger aluminum projects will rely on foreign partners to help with aluminum sales. Again, Vinacomin expects to look at the China market, though it is also considering the Middle East, Japan and Russia.

The Environment

¶12. (SBU) MONRE, MOIT and Vinacomin officials stated that the Prime Minister and Deputy Prime Minister had tasked project developers with finding ways to best protect the environment. To that end, MONRE and Vinacomin officials have been studying how other bauxite and alumina producers manage environmental concerns. Recently, Vinacomin sent engineers to Australia and China to learn the best production and pollution management technologies, while MONRE sent a team to Guangzhi to study how China manages red mud wastes produced during bauxite exploitation. Vinacomin will adopt technologies and techniques from its international partners. For initial projects, Chalieco will transfer Chinese technology, but will follow international standards. MONRE and Vinacomin also noted agreements with Alcoa and Russia's RusAl to develop better bauxite technologies. Vinacomin planned to use minimal land surface to mine and would recover all mined areas, would reuse water supplies several times in the bauxite cleaning and separation process to limit wastewater, limit hazardous wastes, and follow Alcoa practices on handling red mud to ensure the smallest environmental impacts.

Environmental Impact Assessments

¶13. (SBU) In accordance with Vietnamese law, Vinacomin must prepare Environmental Impact Assessments (EIAs) prior to construction of each element of the overall project, including mining, processing, infrastructure construction and transportation. However, Vinacomin was unsure whether it would prepare a Strategic Environmental Assessment (SEA) looking at the environmental impacts of the project as a whole, as GVN law did not require such an undertaking when the project was approved (though it does so now). Nor, is it clear whether EIAs for individual components will look at cumulative environmental impacts of these components together with other related initiatives. Vinacomin prepared EIAs for the initial phase of bauxite/alumina projects in Lam Dong and Dak Nong and will prepare supplements when those two facilities are expanded to full capacity of 600,000 tons per year. Vinacomin stated that it hired expert consultants to make sure that the EIAs relied upon international standards and that it provided training to local residents (including many poor, ethnic minorities) to ensure they could participate in the EIA process. According to MONRE, which has approved these documents, the EIAs cover all aspects of bauxite/alumina mining and production, though they do not cover aluminum processing (not likely to happen at the two facilities) or transportation. The EIAs covered four main areas: soil topography after bauxite removal, water (surface water used in bauxite production, not groundwater, as GVN believes layers of clay and basalt prevent bauxite-related contaminants from leaching into

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groundwater), red mud created during bauxite production, and population resettlement issues.

¶14. (U) This cable was coordinated with ConGen HCMC.

MICHALAK